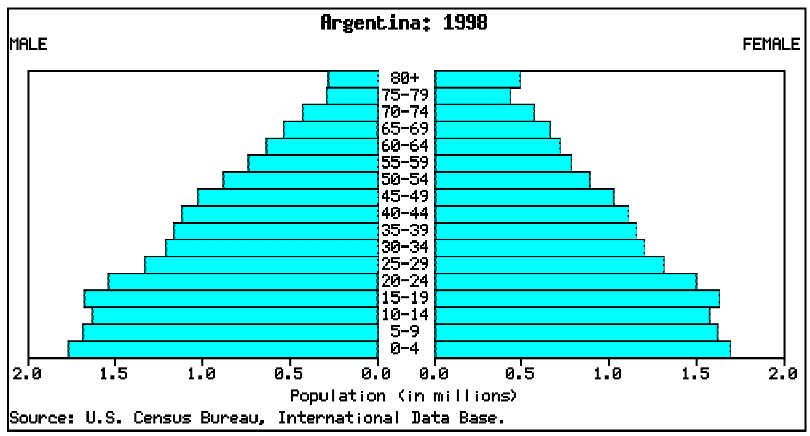
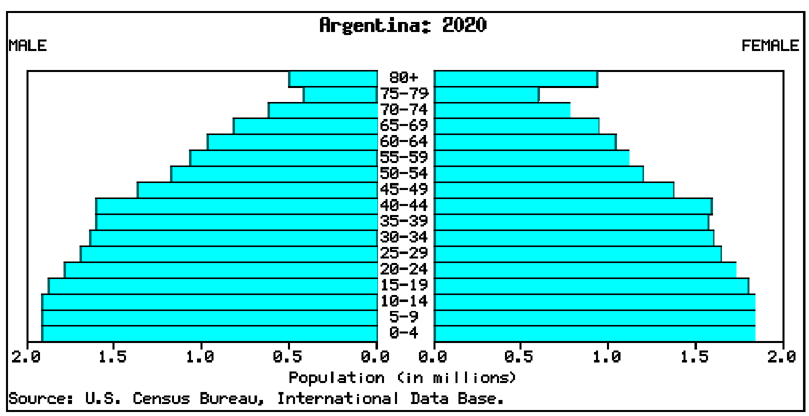
Argentina

Summary of Current System				
	Pillar 1	Pillar 2		Pillar 3
Type:	♦ Defined-benefit	♦ Defined-benefit	♦ Defined-contribution	
Participation:	♦ Mandatory	♦ Mandatory	♦ Mandatory	
Management:	♦ Publicly-managed	♦ Publicly-managed	♦ Privately-managed	
Financing:	♦ PAYGO	♦ PAYGO	♦ Fully-funded	
Coverage:	♦ All workers	♦ All workers		
Eligibility:	♦ Retirement age will be raised from age 64 to 65 for men and from age 59 to 60 for women by 2001.	♦ Retirement age will be raised from age 64 to 65 for men and from age 59 to 60 for women by 2001.		

Challenges Facing Pension System

- ❑ Contribution evasion
- ❑ Generous benefits





Summary of Current System

Argentina implemented a new pension law in 1994, reforming their existing public (Pillar I) pension system and introducing private individual accounts (Pillar II). The pension system has a mixed public-private regulatory scheme. Participation is mandatory for all workers, including the self-employed. All new workers are required to join Pillar I but have the option of joining either the private or the public component of Pillar II. The retirement age for both pension schemes will gradually move to 60 years for women and 65 years for men.

Pillar I is a mandatory, public system that offers the following benefits: (1) a *basic universal pension*, or *PBU* (which is equal to 27.5 percent of average wage) is given to all workers who have met the minimum eligibility period of at least 30 years, (2) a *compensatory pension*, or *PC* (which is equal to 1.5 percent of average salary during the last 10 years prior to retirement for every year of past contribution to the old pension system with a maximum of 35 years, or 52.5 percent) for contributions rendered prior to 1994; and, (3) old age benefits paid to existing pensioners. The government is also responsible for an *old age pension (PEA)*, which is offered to those over 70 years old who have not contributed long enough to qualify for the basic universal pension but have at least 10 years of contributions. In addition to pension benefits, this pillar covers disability and survivorship pensions. Pillar I is financed by a 16 percent contribution from employers.

Pillar II includes both a funded and an unfunded component. Workers may choose between the public system and private system. Employees who choose to remain in the public system may switch to the private system at any time. Once joining the private system, however, employees are not allowed to switch back to the public system.

Argentina

SELECTED INDICATORS		
	Year	
Demographic	*1998*	*2020*
Total Population (in thousands)	36,265	46,345
Life Expectancy at Birth (Years)	74.54	78.22
Total Fertility Rate (Child Born per Woman)	2.68	2.27
Age Dependency Ratio (percent)	23.6	27.8
	1980-2000	*2000-2020*
Average Annual Rate of Population Growth (percent)	1.4	1.1

Source: U.S. Bureau of the Census. International Data Base.

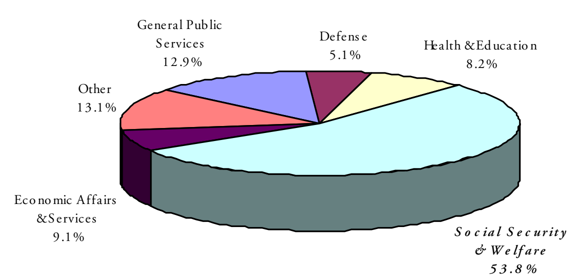
Economic	*1996*
GNP (PPP in billions)[1]	335.6
GNP Average Annual Growth Rate, 1995-1996 (percent)[1]	4.0
GNP Per Capita (in PPP)[1]	9,530
Inflation Rate (percent)[2]	0.2
Labor Force Participation Rate (percent)[3]	39.5
Unemployment Rate (percent)[3]	16.3

Source: [1]World Bank; [2]IMF; [3]International Labour Office.

Pension	*1997*
System Dependency Ratio, 1990 (percent)[1]	64.0
Employee Contribution for Pensions (percent of earnings)[2]	11.0
Employer Contribution for Pensions (percent of payroll)[2]	16.0
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP	n/a

Source: [1]World Bank; [2]U.S. Social Security Administration.

GOVERNMENT SPENDING BY SECTOR, 1995



Source: International Monetary Fund. Government Finance Statistics Yearbook, 1997.

In 1997, it was estimated that 6.2 million or 73 percent of the eligible population had chosen the private pension option. Financing for Pillar II comes from an 11 percent contribution assessed on employees.

The funded, private component is characterized as a defined-contribution system based on individual accounts managed by Pension Fund Administrators, or *Administradoras de Fondos de Jubilaciones y Pensiones* (AFJPs). There were 18 AFJPs operating in 1997. For the private component of the pension system, the 11 percent contribution from employees is allocated in the following manner: 7.5 percent is deposited into individual accounts, 2.5 percent finances disability and survivorship benefits, and 1.0 percent covers the administrative costs of AFJPs. For workers who choose the public option of Pillar II, an additional pension benefit is offered called the *supplementary pension*, or *PAP*. The PAP is a defined-benefit scheme operated by the state. Pension benefits are calculated as 0.85 percent of the average salary over the last 10 years of employment for every year of contribution.

Upon retirement, pension benefits include the *PBU* and *PC* payments from the public system along with either the *PAP* payment or the value of their private account. Both employers and employees are allowed to make additional contributions to the employee's *AFJP* account.

Problems Leading to Pension Reform

Argentina's previous pension system suffered a financial collapse in the 1980s, where the pension deficit averaged 2.5 percent of GDP. The system suffered from extensive contribution evasion. Many individuals chose to avoid the high contribution levels by working in the shadow economy. Because of the small base of contributors, the pension system dependency ratio was estimated at 66 percent in 1990 while the old age dependency ratio was 32 percent. In addition, the pension system providing generous pension benefits, as the average replacement rate ranged from 70 percent to 82 percent.

Challenges Facing Reformed System

The new system faces a number of challenges. It is anticipated that the high rates of contribution evasion will decline as a result of more centralized and efficient collection mechanisms. The collection of contributions from both pillars has been centralized to a new tax authority.

Longer-term challenges include the financing of the *PBU* at its current level as the country is expecting demographic shifts. The Pension Solidarity Law was enacted in 1995 to contain the costs of the public components of the system by eliminating the wage indexation of pensions and introducing a maximum ceiling on public pensions. The law was further amended in 1997, when the government introduced a new method for calculating the basic pension, resulting in a flat-rate pension benefit under Pillar I, financed by payroll contributions, for everyone who has contributed for at least 30 years.

Another challenge facing the private system is controlling the level of switching among pension accounts, which leads to higher administrative costs of *AFJPs*.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓		
Formulation of proposals	✓		
Development of draft legislation	✓		
Introduction of legislation by parliament	✓		
Review of legislation by parliament	✓		
Passage of legislation by parliament	✓		
Implementation of legislation			